



THE STATE OF ILLINOIS  
DEFERRED COMPENSATION PLAN



## Coming soon to the State of Illinois Deferred Compensation Plan (the “DCP”): Plan Loans

In an effort to make the DCP in line with industry best practice and to provide participants in the DCP with additional access to their retirement savings, effective January 2, 2013, ISBI has approved allowing employees with a balance in the DCP to take a loan from their accounts. This service will be available after January 1, 2013, on the website at [rps.troweprice.com](http://rps.troweprice.com) or through a T. Rowe Price representative. Only one loan from any state run retirement plan is permitted at a time, and employees will be asked to self-certify they have no other outstanding loans prior to initiating a loan from the DCP. (Participants will also be asked to provide their highest outstanding loan balance in the last 12 months.) **Therefore, if you are a university employee or otherwise eligible to participate in a 403(b) plan and you have an outstanding loan in that 403(b) plan, you may not take a loan from the DCP.**

### For your benefit, please review these important features of the new loan provision:

- A loan may be taken for any purpose; however, prospective borrowers should seek independent tax advice prior to taking out a loan.
- Prior to submitting hardship distribution requests, participants are required to either apply for a loan or certify that taking a loan would create a severe financial hardship.
- There is a loan initiation fee of \$75.
- The minimum loan amount you may borrow is \$1,000.
- The maximum you may borrow is the lesser of 50% of your vested account balance OR \$50,000 minus your highest outstanding loan balance (a total of all your plan loans, including 403(b) plans) from the preceding 12 months.
- Loans are available to actively working, retired and/or separated from service employees, but they may not be taken from certain sources in your account (e.g. installment, divorce settlement etc). If you have a question about an available source in your account, please speak to a T. Rowe Price representative.
- Participants on a leave of absence are eligible to take loans.
- You may not have more than one loan at any time from any state run retirement plan (including 403(b) plans).
- The interest rate on a loan remains fixed throughout the life of the loan; loan refinancing is prohibited.
- Loans must be taken for at least one year up to five years; failure to pay off the loan within the time period prescribed by the terms of the loan may result in certain tax ramifications.
- Loan repayments will be made via ACH from your bank account, and all loan payments will be debited from your account on the first day of every month.

- To initiate a loan, visit the website at [rps.troweprice.com](https://rps.troweprice.com). Click on My Account> Transactions> Take a loan (see screen shot below). You may also contact T. Rowe Price at 1-888-457-5770.



Plan loans allow you to access money in your plan account for a financial emergency or a major purchase before you retire. However, there are drawbacks. When you borrow from your retirement account, you borrow from your future. Before you apply for a loan, it’s wise to consider the impact a loan can have on your retirement savings account:

- Your account may earn less.** When you repay your loan, the amount of interest you pay may be less than you would have earned by keeping your money in the plan. As a result, your retirement nest egg may be less than you had hoped.
- You may save less.** Making loan payments each pay period may stress your budget and force you to cut back on your retirement plan contributions.
- You might have to pay taxes twice.** You pay interest on your loan with after-tax money. Later, when you retire and withdraw your money, the interest you’ve paid is taxed again.

### A \$10,000 loan now could cost you much more in retirement

Let’s look at the possible effect of borrowing from your retirement savings. In this example, we’ll use average numbers from the DCP. If you want to see an example closer to your situation, use the interactive Plan Loan Calculator located on the website at [rps.troweprice.com](https://rps.troweprice.com). Select the Tools tab and click on Calculators. Look for the link “Should I borrow from my retirement plan?”

#### In this example:

You are age 40, or 25 years from retirement age. You contribute \$1,600 a year (or \$133/month) to your retirement account and now have an account balance of just \$25,000. You’re thinking about taking a \$10,000 plan loan from your account. You’ll repay the loan over the next five years at an interest rate of 4.25%. Your monthly loan payment would be \$185. Total interest paid over five years would be \$1,118.

Your options:	Estimated Plan Account Balance at Retirement:
(1) You decide not to borrow from your retirement savings .....	\$251,145
(2) You take a \$10,000 plan loan but continue making monthly contributions to your account while also making monthly loan payments .....	\$238,792
(3) You take a \$10,000 and stop monthly contributions to your account for five years while you make monthly loan payments .....	\$200,240
Results assume a 7% annual investment return. However, this example is for illustrative purposes only and is not meant to represent the performance of any of your plan’s investment options.	



**The bottom line: Keep contributing to your plan**

When you borrow from your retirement account, you borrow from tomorrow. Should you decide to take a plan loan, it's wise to continue saving each month while you repay your loan. If you are repaying a loan and have suspended your contributions, you can start contributing again. To start contributing again, contact CMS at 1-800-442-1300.

**Learn more**

Access your account anytime, day or night, online at **rps.troweprice.com** or call a T. Rowe Price representative at **1-888-457-5770**. Representatives are available on business days between 7 a.m. and 10 p.m. ET.

T. Rowe Price also offers a free mobile website where you can view account balances and fund prices, check the status of recent and pending transactions, research investment information, and receive financial highlights. You can access the mobile website at **www.troweprice.mobi** using your T. Rowe Price user name and password.